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SUBJECT: IRELAND - 2005 INVESTMENT CLIMATE STATEMENT

REF: 04 STATE 250356

A1. OPENNESS TO FOREIGN INVESTMENT

IRISH GOVERNMENT'S ATTITUDE TOWARDS FOREIGN INVESTMENT

¶1. Over the past twenty years, Irish governments have actively promoted foreign direct investment (FDI), a strategy that has helped Ireland to achieve unprecedented economic growth during this "Celtic Tiger" period. FDI flows into Ireland increased from an annual average of USD 140 million in the mid-1980s to USD 2.7 billion per year in the second half of the 1990s, yielding a total FDI stock of USD 223 billion by 2003. Traditionally, the principal goal of investment promotion has been employment creation, especially in technology-intensive and high-skill industries. In recent years, the Irish government has also sought to assist established foreign companies to sustain their international competitiveness through R&D enhancements and the marketing/sales of higher-value goods and services.

¶2. The Irish Government's efforts have had particular success in attracting U.S. foreign investment. According to the American Chamber of Commerce, Ireland, with one percent of the EU's population, attracted twenty-five percent of all new U.S. investment in the EU over the last decade. In 2003, U.S. investment flow into Ireland was roughly USD 9.1 billion, two-and-a-half times the amount of U.S. investment flow into China. There are about 580 U.S. firms in Ireland, employing over 90,000 workers, primarily in the following sectors: chemicals; bio-pharmaceuticals and healthcare; computer hardware and software; electronics; and, financial services. In the bio-pharmaceutical and computer sectors, U.S. firms operate some of the world's most advanced manufacturing and research facilities. For example, Ireland's flagship FDI project in 2004 was the Intel Fab 24 plant, which will produce the company's next generation of microchips.

¶3. The American Chamber of Commerce reports that U.S. companies are attracted to Ireland for the following reasons: access to the EU market; a 12.5 percent rate of corporation tax; the quality and flexibility of the English-speaking workforce (of all OECD countries, only the Japanese workforce has a higher proportion of trained engineers and scientists); and, the pulling power of existing companies operating successfully in Ireland (a "bandwagon" effect).

¶4. Factors that may negatively affect Ireland's ability to attract foreign direct investment include: increasing costs of skilled and unskilled labor (especially when compared to low-cost countries such as China and India), inadequate infrastructure (particularly in the transportation, internet/broadband, energy and social services sectors), and rising domestic costs due to euro appreciation and inflation rates that have consistently exceeded the EU average. Nonetheless, the attractive corporate tax regime, the pro-business policy environment, and the access to the single European market should ensure continued relatively high levels of foreign investment in Ireland into the medium-term.

¶5. Four state organizations promote inward investment into Ireland by foreign companies:

- The Industrial Development Agency of Ireland (IDA Ireland) has overall responsibility for promoting and facilitating foreign direct investment in all areas of the country, except the Shannon Free Zone. IDA Ireland also has responsibility for attracting foreign companies to Dublin's International Financial Services Center (IFSC). IDA Ireland maintains offices in New York, Boston, Chicago, Los Angeles, San Jose, and Atlanta, as well as at locations in Europe and Asia;

- Enterprise Ireland promotes joint ventures and strategic alliances between indigenous and foreign companies;

- Shannon Free Airport Development Co. (SFADCO) handles investment in the Shannon Free Zone and is generally responsible for economic development in the Shannon region. The Irish Government is considering a proposal from the Enterprise Strategy Group, a quasi-official body focusing on

national competitiveness, to fold SFADCO into IDA;

- Udaras na Gaeltachta has responsibility for economic development in those areas of Ireland where Irish (Gaelic) is the predominant language, and works with IDA Ireland to promote overseas investment in these regions.

¶6. Major Laws/Rules/Taxation Policy
Ireland's judicial system is transparent and upholds the sanctity of contracts as well as laws affecting foreign investment. These laws include:

- The Industrial Development Act of 1993 outlines the functions of IDA Ireland, the state agency responsible for attracting overseas investment to Ireland;

- The Mergers, Takeovers and Monopolies Control Act of 1978 sets out rules governing mergers and takeovers by foreign and domestic companies; the Competition (Amendment) Act of 1996 amends and extends the Competition Act of 1991 and the Mergers and Takeovers (Control) Acts of 1978 and 1987, and sets out the rules governing competitive behavior;

- The Companies Act of 1963 contains the basic requirements for incorporation in Ireland (amended in 1990); and,

- The 2004 Finance Act, which introduced tax incentives to encourage firms to set up headquarters in Ireland and to conduct research and development.

In addition, there are numerous laws and regulations pertaining to employment, social security, environmental protection and taxation, with many of these determined at the EU level.

¶7. One of Ireland's most obvious attractions as a location for international investment is the low rate of corporate tax. Since January 1, 2003, the corporate tax rate for both foreign and domestic firms has been 12.5 percent. Existing foreign firms will retain their entitlement to the "old" 10 percent rate until 2010 in the case of manufacturing and certain internationally traded services. Ireland's corporate tax rate is among the lowest in the EU, and the Irish Government has resolutely resisted efforts to harmonize taxes at a single EU rate.

¶8. All firms incorporated in Ireland are treated on an equal basis. With only a few exceptions, there are no constraints preventing foreign individuals or entities from ownership or participation in private firms/corporations. The most significant of these exceptions is that, as with other EU countries, Irish airlines must be at least 50 percent-owned by EU residents in order to have full access to the single European aviation market. There are also requirements related to the purchase of agriculture lands (see below). There is no formal screening process for foreign investment in Ireland, though investors looking to receive Government grants or assistance through one of the four state agencies responsible for promoting foreign investment in Ireland are often required to meet certain employment and investment criteria (see section "D" below).

¶9. While Ireland does not have a formal privatization program, there is likely to be at least partial privatization of some state-owned companies in the aviation and energy sectors over the coming years. There are no barriers to participation by foreign institutions in the sale of Irish state-owned companies. Residents of Ireland, however, may be given priority access in share allocations to retail investors, as was the case with the state-owned telecommunications company, Eircom, privatized in 1998.

¶10. Citizens of countries other than Ireland and other EU member states can acquire land for private residential purposes and for industrial purposes. Under Section 45 of the Land Act, 1965, all non-EU nationals must get the written consent of the Land Commission before acquiring an interest in agricultural land, though there are many stud farms and racing facilities in Ireland that are owned by foreign nationals. There are no restrictions on the acquisition of urban land.

¶11. IDA Ireland assesses potential investment projects for eligibility for grant aid. Grant aid is largely tied to job creation and linkages with the local economy. Screening mechanisms for grant aid purposes are transparent and do not impede investment, limit competition, or protect domestic interests. Potential investors are also required to examine the environmental impact of the proposed project and to meet with Irish Environmental Protection Agency (EPA) officials.

¶12. While investors are free, subject to planning considerations, to choose the location of their investment, IDA Ireland has since the late 1990s differentiated grant aid levels in favor of regions outside Dublin. This linkage is consistent with the National Spatial Strategy, which was

adopted in 2001 with the aim of spreading investment more evenly around the country. One of the strategy's stated goals was to direct 50 percent of all new jobs related to greenfield investment to the border, midlands, and western (BMW) counties of Ireland, where the economy is less developed. In 1999, roughly 25 percent of jobs related to greenfield investment were located in the BMW region; by 2003, this figure had grown to 46 percent. To encourage client firms to locate outside Dublin, IDA Ireland has developed "magnets of attraction," including: a Cross Border Business Park linking Letterkenny and Derry, a regional Data Center in Limerick, and the National Microelectronics Research Center in Cork.

A.2. Conversion and Transfer Policies

¶13. Ireland enjoys full current and capital account liberalization. There are no restrictions or reported significant delays in the conversion or repatriation of investment capital, earnings, interest, or royalties, nor are there any plans to change remittance policies. Likewise, there are no limitations on the import of capital into Ireland. Foreign exchange is easily obtainable at market rates. In 2004, the Irish Financial Services Regulatory Authority (IFSRA) reported that the Allied Irish Bank (AIB) had knowingly overcharged on foreign exchange transactions for several years. AIB has repaid the overcharged amount and begun an internal disciplinary process. The euro is Ireland's national currency.

A.3. Expropriation and Compensation

¶14. Private property is expropriated only for public purposes in a non-discriminatory manner and in accordance with established principles of international law. State condemnations of private property are carried out in accordance with recognized principles of due process. Where there are disputes between owners of private property subject to a government taking, the Irish courts provide a system of judicial review and appeal. In 2004, there were no reported expropriatory actions involving the property/facilities of U.S. investors.

A.4. Dispute Settlement

¶15. Ireland has no specific domestic laws governing investment disputes with foreign firms. There is, however, a legal arbitration framework available to parties that opt to arbitrate a dispute, including investment disputes, rather than litigate the case. Although there are no disputes over current U.S. investments in Ireland, U.S. firms in recent years have occasionally called into question the transparency of government tenders, some of which have been won by U.S. companies.

¶16. The Irish legal system is based on common law, legislation and the constitution. The Companies Act 1963 (amended 1990) is the most important body of law dealing with commercial and bankruptcy law and is consistently applied by the courts. Irish bankruptcy laws give creditors a strong degree of protection. The Department of Enterprise, Trade and Employment is the state agency with primary responsibility for drafting and enforcing company law. The judiciary is independent and litigants are entitled to trial by jury in commercial disputes. Ireland is a member of the International Center for the Settlement of Investment Disputes, and the Irish Government has been willing to agree to binding international arbitration of investment disputes between foreign investors and the state. Ireland is also a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. There is no specific domestic body for handling investment disputes.

A.5. Performance Requirements/Incentives

¶17. The Irish Government does not maintain any measures that it has notified the WTO to be inconsistent with Trade-Related Investment Measures (TRIMs) requirements. Moreover, there have been no allegations that the Government maintains measures that violate the WTO's TRIMs text.

¶18. Three Irish organizations, SFADCO, IDA Ireland, and Udaras, have regulatory authority for administering grant aid to investors for capital equipment, land, buildings, training, research and development, etc. Business enterprises in Ireland, including overseas companies, which seek grant aid from these organizations must submit investment proposals. Typically, these proposals include information on fixed assets (capital), labor, and technology/R&D components and establish targets using criteria such as sales, profitability, exports, and employment. This information is treated in confidence by the

organizations, and each investment proposal is subject to an economic appraisal prior to approval for support.

¶19. Performance requirements are generally based on employment creation targets established between the state investment agencies and foreign investors. Grant aid is paid out only after externally audited performance targets have been attained. Generally, parent companies must guarantee repayment of the government grant if the company closes before an agreed period of time elapses, normally ten years after the grant has been paid. Grant agreements generally have a term of five years after the date on which the last grant is paid. There are no requirements that foreign investors purchase from local sources or allow nationals to own shares.

¶20. As a result of "Agenda 2000" EU budgetary reforms, since 2000 Ireland has been treated as two regions for the purpose of EU structural funding and maximum "regional aid." Under the new rules, maximum grant aid assistance (40 percent of capital investment) is only available to companies locating in the 13 "Objective 1" border, midland and western (BMW) counties of Ireland, where infrastructure is less developed. Companies locating in the remaining 15 counties in the more prosperous south and east are entitled to restricted grant aid up to a maximum of 17.5 percent to 20 percent of their capital investment, depending on location. For the period 2004-2006, the following ceilings apply:

Transition Regions	Percent of Capital Investment
-- Southeast	20
-- Mid-West	20
-- Southwest	20
-- Mid-East	18
-- Dublin	17.5
Objective 1 Region	
-- Border, Midlands, West	40

The current Regional Aid Guidelines (RAGs) will cease to operate at the end of 2006, and the EU Commission is now developing new RAGs for the period 2007-2013. It is expected that these new rates will be lower than the current rates.

¶21. There are no restrictions, de jure or de facto, on participation by foreign firms in government-financed and/or subsidized research and development programs on a national basis. On the contrary, the government encourages multinational companies to undertake more research and development in Ireland. Science Foundation Ireland (SFI), the State Science Agency, is responsible for administering a euro 365 million R&D fund under the 2000-2006 National Development Plan. The fund targets leading researchers in Ireland and overseas to promote within Ireland the development of information/communications technology and biotechnology, as well as complementary worker skills. Under the 2004 Finance Act, moreover, a credit of 20 percent of the incremental expenditure on revenue items, royalties, plant, and machinery related to R&D can be offset against a company's corporation tax liability in the year in which it is incurred.

¶22. Visa, residence and work permit procedures for foreign investors are non-discriminatory and, for U.S. investors, generally liberal. There are no restrictions on the numbers and duration of employment of foreign managers brought in to supervise foreign investment projects, though their work permits must be renewed yearly. There are no discriminatory export policies or import policies affecting foreign investors.

A.6. Right to Private Ownership and Establishment

¶23. The most common form of business organization in Ireland is the incorporated company, limited by shares, registered under the Companies Act, 1963, or previous legislation. Irish law does not prevent foreign corporations from carrying on business in Ireland. Any company incorporated abroad that establishes a branch must, however, file certain papers with the Registrar of Companies. A foreign corporation with a branch in Ireland will have the same standing in Irish law for purposes of contracts, etc., as a company incorporated in Ireland. Private businesses are not at a competitive disadvantage to public enterprises with respect to access to markets, credit, and other business operations.

¶24. Before 1999, Irish company law differed from international norms by allowing, for tax purposes, the registration of companies in Ireland that were not actually resident in Ireland (so-called Irish Registered Non-Resident companies (IRNRs)). In response to concern that a large number of the estimated 40,000 IRNRs were engaged in fraud, tax evasion, money laundering, and other illegal activities, the 1999 Finance Act equated registration in Ireland with tax residence and liability for all companies except in limited

circumstances. Exceptions include cases where the Irish company, or a related parent company, is carrying on trade in Ireland, and the company is ultimately controlled either by residents of an EU member state or by residents of a country with which Ireland has a tax treaty (including the United States). Nonetheless, all Irish-based companies, including U.S. firms, claiming non-residence in Ireland because of tax treaty provisions must identify the beneficial owners of the company.

¶25. Similarly, the "Companies (Amendment) (No. 2) Act 1999" requires that every application for company registration in Ireland show the manner in which the proposed company will carry out activities in Ireland. Section 43 of the legislation stipulates that a company must either have a director resident in the State or provide a bond of euro 25,400 in the event that the company commits an offense under the Companies Act or tax legislation. Section 44 states that these requirements may be waived when the Company obtains a certificate from the Companies Office stating that the company has a real and continuous link with one or more economic activities in Ireland. Like the 1999 Finance Act, the Companies Act is designed to prevent the use of IRNRs for exclusively foreign activities without any connection to Ireland.

A.7. Protection of Property Rights

(I) Real Property

¶26. Secured interests in property, both chattel and real estate, are recognized and enforced. The Department of Justice administers a reliable system of recording such security interests through the Land Registry and Registry of Deeds. An efficient, non-discriminatory legal system is accessible to foreign investors to protect and facilitate acquisition and disposition of all property rights.

(II) Intellectual Property Rights

¶27. Ireland is a member of the World Intellectual Property Organization and a party to the International Convention for the Protection of Intellectual Property. In July 2000, Irish President McAleese signed legislation bringing Irish intellectual property rights (IPR) law into compliance with Ireland's obligations under the WTO Trade-Related Intellectual Property Treaty (TRIPS). The legislation came into force on January 1, 2001, and gives Ireland one of the most comprehensive systems of IPR protection in Europe.

¶28. This legislation addressed several TRIPs inconsistencies in previous Irish IPR law that had concerned foreign investors, including the absence of a rental right for sound recordings, the lack of an "anti-bootlegging" provision, and low criminal penalties that failed to deter piracy. The new legislation has, by improving enforcement and penalties on both the civil and criminal sides, helped reduce the high levels of software and video piracy in Ireland.

¶29. As part of this comprehensive copyright legislation, changes were also made to revise the non-TRIPs conforming sections of Irish patent law. Specifically, the new IPR legislation addresses two concerns of many foreign investors in the previous legislation:

- the compulsory licensing provisions of the previous 1992 Patent Law were inconsistent with the "working" requirement prohibition of TRIPs Articles 27.1 and the general compulsory licensing provisions of Article 31; and,

- applications processed after December 20, 1991, did not conform to the non-discrimination requirement of TRIPs Article 27.1.

¶30. Piracy, however, continues to be a problem, as indicated by police seizures of counterfeit DVDs and CDs. In August 2003, police in Dundalk seized several thousand DVDs and CDs, worth approximately euro 500,000, which were intended for sale in open-air markets in the Republic of Ireland and Northern Ireland. In December 2004, police in Cork recovered roughly euro 50,000 worth of counterfeit DVDs, CDs, sports clothing, and perfume) the fourth such raid in the Cork area during the year. It is widely believed that the Irish Republican Army (IRA) is involved in the manufacture and sale of DVDs and CDs on both sides of the border. Moreover, industry sources estimate that up to 41 percent of PC software used in Ireland is pirated.

A.8. Transparency of the Regulatory System

¶31. The Irish Government generally employs a transparent and effective policy framework that fosters competition between

private businesses in a non-discriminatory fashion. While ongoing Irish judicial "Tribunals" are investigating possible links between indigenous Irish companies' political donations in the late 1980s and favorable government decisions, U.S. businesses can, in general, expect to receive national treatment in their dealings with the Government. There is no report of any U.S. firm or investor having being required or forced to make payments during that period.

¶32. In recent years, independent bodies have taken over regulatory powers in key economic sectors from Cabinet Departments. The Commission for Communications Regulation and the Commission for Energy Regulation are responsible for regulating the communications and energy sectors, respectively. Both are independent bodies with institutional links to the Department of Communications, the Marine and Natural Resources. The Commission for Aviation Regulation is an independent body that regulates the aviation sector. It is institutionally linked to the Department of Transport, which has direct regulatory powers over other segments of the transportation sector.

¶33. The Competition (Amendment) Act 1996 amends and extends the Competition Act 1991 and strengthens the enforcement power of the Competition Authority, introduces criminal liability, increases corporate liability, and outlines available defenses. Most tax, labor, environment, health and safety, and other laws are compatible with European Union regulations, and they do not adversely affect investment. Bureaucratic procedures generally are transparent and reasonably efficient.

A.9. Efficient Capital Markets and Portfolio Investment
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¶34. Capital markets and portfolio investments operate freely, and there is no discrimination between Irish and foreign firms. In some instances, development authorities and banks are able to facilitate loan packages to foreign firms with favorable credit terms. Credit is allocated on market terms, although the Irish Competition Authority found in 2004 that the banking sector's lack of competition limited the amount of credit available to small and medium-sized firms. Irish legal, regulatory, and accounting systems are transparent and consistent with international norms and provide a secure environment for portfolio investment. The Capital Gains Tax rate is 20 percent. The Irish banking system is sound. The estimated total assets of all licensed credit institutions as of January 2005 equaled euro 702.8 billion. According to the Central Bank, non-performing loans comprised roughly one percent of total assets. U.S. banks operating in Ireland include Citibank and Chase Manhattan.

¶35. Total market capitalization in the Irish Stock Exchange (ISEQ) is currently euro 82.9 billion, roughly 57 percent of projected 2004 nominal GDP (euro 144.8 billion). In terms of market weight, the stocks of four companies are predominant: Allied Irish Bank, Bank of Ireland, CRH (a construction industry supplier), and Elan (a pharmaceuticals firm). The Irish stock market has recovered steadily since plummeting in 2002 following the global economic slowdown and well-publicized management problems at several major Irish companies. Since 2003, ISEQ has been up 23 percent and, between January and October 2004, was up 14.5 percent. This is one of the strongest performances in the developed world and has pushed ISEQ close to its mid-2001 high. Economists attribute ISEQ's robust showing to Ireland's broad-based economic growth and a likely under-valuing of Irish stocks earlier in the decade. A proposal to establish a secondary stock exchange in 2005 focusing on small and medium-sized enterprises (SMEs) is also under consideration.

¶36. In May 2003, the Central Bank of Ireland was reorganized into the Central Bank and Financial Services Authority of Ireland (CBFSAI), in accord with the Central Bank and Financial Services Authority of Ireland Act 2003. Under the legislation, the Governor of the CBFSAI has responsibility for the overall stability of the Irish financial system. The legislation also established the Irish Financial Services Regulatory Authority (IFSRA), which is an autonomous but constituent part of CBFSAI that regulates financial services institutions in Ireland. IFSRA took over this responsibility from a mix of government bodies, including: the Central Bank, the Department of Trade, Enterprise, and Employment (DETE), the Office of Director of Consumer Affairs, and Registrar of Friendly Societies. The legislation also enhanced the regulatory powers given to IFSRA, particularly in consumer protection.

¶37. With the advent of Economic and Monetary Union (EMU), the Central Bank is now a member of the European System of Central Banks (ESCB) whose primary objective is to maintain price stability in the euro area. Ireland no longer operates an independent monetary policy. Rather, ESCB formulates and implements monetary policy for the euro area, and the Central Bank implements that policy at the national level. The

Governor of the Central Bank is one of 18 members of the Governing Council for the ECB and has an equal say in the formulation of monetary and interest rate policy. The other main tasks of the Central Bank include: issuing euro currency in Ireland; acting as manager of the official external reserves of gold and foreign currency; conducting research and analysis on economic and financial matters; overseeing the domestic payment and settlement systems; and, managing investment assets on behalf of the State.

¶A. 10. Political Violence

(I) Impact of Northern Ireland Instability

¶38. In the past, political instability and violence in Northern Ireland were thought to affect the Republic of Ireland. In reality, however, there has been little spill over of violence or instability, especially since the late 1970s and particularly after the cease-fires of 1994. The growth of business investment and confidence in Northern Ireland since the cessation of widespread violence has benefited the Republic of Ireland, with cross-border trade reaching euro 2.5 billion in 2003. No violence related to the situation in Northern Ireland has been specifically directed at U.S. citizens or firms located in the South.

¶39. The 1998 ratification of the Good Friday Agreement by large majorities in both Ireland and Northern Ireland has further diminished the potential for violence. Since then, however, groups opposed to the peace process have continued to commit acts of criminality and terror in Northern Ireland and on mainland Britain. There have been no serious incidents in the Republic of Ireland. Through the second half of 2004, the Irish and British Governments conducted intensive mediation efforts among the Northern Ireland political parties in pursuit of a final peace agreement. These efforts were set to continue into 2005.

(II) Other Acts of Political Violence

¶40. In 1997 and Spring 1998, an Irish environmental group vandalized two separate Irish crop trial sites, involving agricultural biotechnology crops. The trials were conducted by the U.S. firm Monsanto. Irish police investigated both incidents and criminal charges were filed in both cases. There have been no further incidents involving subsequent GMO plant trials in Ireland.

¶41. There have been no other recent incidents involving politically motivated damage to foreign investment projects and/or installations in the Republic of Ireland. In 2003, an Irish citizen opposed to the Iraq War damaged a U.S. military plane at Shannon Airport. In 2004, she was convicted in an Irish court and given a suspended sentence.

¶A. 11. Corruption

¶42. Corruption is not a serious problem for foreign investors in Ireland. The principal Irish legislation relating to anti-bribery and corruption includes the Public Bodies Corrupt Practices Act 1889, the Prevention of Corruption Act 1906, the Prevention of Corruption Act 1916 and the Prevention of Corruption (Amendment) Act 2001. This body of law makes it illegal for Irish public servants to accept bribes. The Ethics in Public Office Act 1995 provides for the written annual disclosure of interests of people holding public office or employment.

¶43. Ireland signed the UN Convention on Corruption in December 2003, and ratification is pending a review of the legal measures required for implementation. In January 2000, the GOI introduced to Parliament the "Prevention of Corruption (Amendment) Act, 2001," to ratify and implement the OECD Convention on Bribery. The legislation, which enabled Ireland to ratify a number of conventions dealing with corruption drawn up by the European Union, the Council of Europe, and the OECD, came fully into force as law in November 2002. Ireland formally ratified the OECD Convention in September 2003. Ireland is also a member of the OECD Working Group on Bribery and the Group of States Against Corruption (GRECO). Under the Prevention of Corruption Act, the bribery of foreign officials is a criminal offense. Bribery of foreign officials may also invalidate a contract that a party is seeking to enforce in Ireland.

¶44. A number of ongoing judicial "Tribunals" are seeking to establish whether political donations by certain Irish companies in the late 1980s and early 1990s can be linked to favorable government decisions, mostly at the local level, in zoning and tax matters. There is also growing media and public concern that business interests may have compromised Irish politics in the late 1980s and early 1990s. These developments have led to calls for the establishment of a

permanent commission to investigate allegations of corruption against politicians. Despite these reports of payments to political parties and figures in the 1980s and early 1990s, there remains no indication that foreign businesses or investors have had to make such payments or been approached to make such payments to conduct business during the period in question or in years since.

¶45. In late 2004, the Government launched an inquiry into allegations that a Cabinet Minister approved for his former Department a no-bid public relations contract worth euro 300,000 for a political associate. This inquiry continued into 2005.

¶46. The Irish police (Garda Siochana) investigate allegations of corruption. If sufficient evidence of criminal activity is found, the Director of Public Prosecutions prepares a file for prosecution. A small number of public officials have been convicted of corruption and/or bribery in the past, although it is not a common occurrence.

A.12.B. Bilateral Investment Agreements

¶47. Ireland's only bilateral investment protection agreement is with the Czech Republic. In addition, Ireland has bilateral tax treaties with the following countries: Australia, Austria, Belgium, Bulgaria, Canada, China, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, India, Italy, Israel, Japan, Korea (Rep. of), Latvia, Lithuania, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Pakistan, Poland, Portugal, Romania, Russia, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, UK, the United States, and Zambia. Treaties with Greece and Iceland were signed in November and December 2003, respectively. The treaty with Iceland was ratified on January 1, 2005. A treaty replacing the existing treaty with Canada was signed in October 2003. These agreements serve to promote trade and investment between Ireland and the partner countries that would otherwise be discouraged by the possibility of double taxation. New treaties with Argentina, Chile, Egypt, Kuwait, Malta, Morocco, Singapore, Tunisia, Turkey, and Ukraine are currently being negotiated. Existing treaties with Cyprus and France are in the process of renegotiation.

¶C. OPIC and Other Investment Insurance Programs
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¶48. Since 1986 the U.S. Overseas Private Investment Corporation (OPIC) has been authorized to operate in Ireland as part of the U.S. effort to support the process of peace and reconciliation in Northern Ireland. There is some potential in Ireland for OPIC's credit guarantee programs. No other countries have an investment insurance program in Ireland. Ireland is a member of the Multilateral Investment Guarantee Agency (MIGA).

¶49. The estimated annual U.S. dollar value of local currency likely to be used by the U.S. Embassy in Ireland during 2005 is approximately USD 11.8 million. The Embassy purchases local currency through centralized bulk purchasing arrangements at a competitive market rate.

¶D. Labor

¶50. The Irish economy created roughly 1,000 new jobs per week in 2004, paralleling strong economic growth during the year. As of the third quarter of 2004, there were 1.89 million people in employment in Ireland, an increase of 57,200, or 3.1 percent, compared to the third quarter of ¶2003. This is the highest level of annual employment growth recorded since the first quarter of 2001, when the increase was 3.8 percent. Since 1994, employment growth has averaged just below 4.0 percent, with lower rates recorded in 2002 and 2003 following the post 9-11 global economic slowdown. Comparing the third quarters of 2003 and 2004, the largest increase in employment was in the construction sector, which added 21,600 jobs. There were also gains in financial services, wholesale and retail trade, and health. Hotels and restaurants saw the largest drop in employment, with a decrease of 7,600 jobs.

¶51. In contrast to 15.6 percent unemployment in 1993, Ireland registered 4.3 percent unemployment in the third quarter of 2004. This latest figure was the lowest unemployment rate among European Member states and roughly half the eurozone average. The number of unemployed people in the third quarter was 93,900, representing a decrease of 4,900 compared to the third quarter of 2003. Moreover, Ireland's jobless rate among people under 25 was roughly 8 percent, as compared to the eurozone average of 17.3 percent. Local economists believe that the Irish economy is as close to full employment as possible, with employers reporting

difficulties in recruiting workers. Whereas once Ireland's number one policy goal was job creation, employment growth has shifted the focus to increasing the labor force and upgrading skills and qualifications.

¶52. Irish labor force regulation is less restrictive compared with most continental EU countries. The Irish workforce is characterized by a high degree of flexibility, mobility, and education. There is a relative gender balance in the workforce, with 1.15 million males and 830,000 females currently employed. This gender balance reflects a change in social mores that has facilitated a surge in female employment since the mid-1980s

¶53. With the tightening of the labor market, wages remain on an upward growth curve. Average annual compensation in Ireland in 2004 grew by over 4 percent to euro 38,140, compared to euro 34,630, the average wage in the original 15 EU Member States. Between 1998 and 2003, compensation per employee increased by 37.1 percent, compared with 8.7 percent in Germany over the same period. The minimum wage was euro 5.20 when it was first introduced in 2000 and has risen to euro 7.00 as of 2005. Employees earning the minimum wage currently do not have to pay personal income tax, although scheduled increases in the minimum wage in the coming years may place minimum-wage earners back in the tax net.

¶54. During the 1990s, average labor productivity growth in the manufacturing sector exceeded average earnings growth. As a result of a steady decline in average unit costs, Irish competitiveness improved. These competitive gains were further enhanced by the nominal depreciation of the euro relative to the dollar and sterling. Given increasing wages and the recent appreciation in the value of the euro, Irish competitiveness, relative to its main trading partners, is falling. Despite these negative factors, Ireland still maintains a below average relative wage cost when compared to its major trading partners.

¶55. The Irish system of industrial relations is a voluntary one. Pay levels and conditions of employment are generally agreed through collective bargaining between employers and employees. Since 1987, collective bargaining has taken place under the framework of a series of national economic programs, negotiated by representatives of employers, trade unions, farmers, and the government. This consensual "Social Partnership" approach has been accompanied by a marked improvement in the industrial relations climate since the mid-1980s. Working days lost as a result of industrial disputes amounted to 21,257 in 2002 and roughly 34,000 in 2003 (a fraction of the total days lost through industrial action in the 1980s and early 1990s).

¶56. The latest national economic program, "Sustaining Progress", was agreed under the Social Partnership framework in February 2003 and approved by Ireland's major unions in August 2004. The 18-month agreement exchanges a 7 percent wage increase for industrial relations stability. While the package will cost the GOI - Ireland's largest employer - an estimated euro 2.5 billion, private industries unable to pay the full 7 percent due to competitive pressures will be permitted to pay lesser increases or none at all. As part of the package, the GOI committed to provide an increased supply of "affordable housing" and to amend legislation and statutory codes to strengthen the procedures by which unions can represent their members' interests. In addition, the GOI enhanced statutory redundancy terms to provide released employees with two weeks' compensation for each year of service.

¶57. In recent years, increases in the cost of living have mitigated the benefits of pay increases. The Irish inflation rate is currently 2.2 percent, just slightly above the eurozone average of 2.0 percent. Between 2000 and 2003, however, Ireland's annual inflation rate was 2 to 3 times the eurozone average. Irish Government studies show that Ireland is now the most expensive country in the EU (or at least tied with Finland for that distinction). Annual growth rates in housing prices, for example, have been in the double-digit range since the late 1990s, causing disillusionment among aspiring homeowners. Even though Ireland in 2004 recorded its tenth consecutive year for housing starts, with 80,000 homes built, demand continues to exceed supply. The alternative to home ownership is rental housing, which is also expensive and insufficiently regulated for compliance with structural stability standards. These trends have made the provision of affordable housing a major issue for the government.

¶58. Trade union demands for mandatory trade union recognition in the workplace are strongly resisted by employers. While the Irish constitution guarantees the right of citizens to form associations and unions, Irish law also affirms the right of employers not to recognize unions and to deal with employees on an individual basis. Currently, roughly 33 percent of workers in the private sector are

unionized, compared to 95 percent in the public sector. Among foreign-owned firms, roughly 80 percent of workers do not belong to unions. Employers also strongly oppose trade union demands for greater "partnership" between employees and employers at the enterprise level, including worker participation in managerial decisions through German-style "work councils." Some progress has been made, however, with regard to increased profit-sharing.

¶E. Foreign Trade Zones/Free Ports

¶59. The Shannon duty-free Processing Zone (SDFPZ) was established by legislation in 1957. Under the legislation, eligible companies operating in the Shannon Free Zone are entitled to the following benefits: goods imported from non-EU countries for storage, handling or processing are duty free; no duty on goods exported from Shannon to non-EU countries; no time limit on disposal of goods held duty-free; minimum customs documentation and formalities; no Value Added Tax (VAT) on imported goods, including capital equipment; choice of having import duty on non-EU product calculated on its landing value or selling-out price. Qualifying criteria for eligible companies include employment creation and export-orientation. Foreign-owned firms in the Shannon Free Zone have the same investment opportunities as indigenous Irish companies. As of 2004, there were 110 internationally traded manufacturing and service companies employing 7,472 workers. U.S. companies operating out of Shannon include GE Capital, Bristol Myers Squibb, DHL, UPS, Pfizer, and Cabletron. The Shannon Free Zone is technically an asset of SFADCO, although the Government is currently reviewing a proposal to place the zone under the authority of Shannon Airport as a means of airport funding.

¶60. Duty free exemptions are available also to companies operating in Ireland's major deep-water port at Ringaskiddy in County Cork, although these have been used infrequently in recent years.

¶F. Foreign Direct Investment Statistics

¶61. According to Ireland's Central Statistical Office (CSO), Ireland received FDI flows worth euro 23.3 billion in 2003, or 0.18 percent of nominal 2003 GDP (euro 134.8 billion). For end-year 2003, the stock of FDI in Ireland stood at to euro 171.9 billion, or 127 percent of nominal 2003 GDP. According to the 2003 United Nations Conference for Trade and Development (UNCTAD) World Investment Report, Ireland (with a population of 4 million) ranked seventh among FDI recipient countries, behind Luxembourg, China, France, the United States, Belgium, and Spain.

¶62. In 2004, the 1,055 companies supported by IDA Ireland spent euro 15.5 billion in the Irish economy from their annual sales of euro 72 billion and exports of euro 68 billion and paid over euro 2.7 billion in corporate tax. During the year, IDA negotiated 70 new business projects with new and existing clients, which involved a total investment commitment of over euro 5 billion for the coming years. IDA also supported 36 R&D investment projects involving a total investment by business in excess of euro 140 million.

¶63. At end-2004, 490 IDA-assisted U.S. companies were operating in Ireland, employing 89,158 workers, representing roughly 75 percent of the total number of workers employed by IDA-supported foreign firms and 5 percent of total Irish employment. In 2003, Ireland secured 64 foreign direct investment (FDI) projects, and, of these, 65 percent were by U.S. firms, including: Google, Overture, Ebay, PayPal, Centorcor, and Altera. The following U.S. firms are engaged in major expansion projects: Intel, Symantec, Wyeth, MBNA, Abbott, Cenzyme, Medtronic, Xilinx, Pepsi, Guidant, Merit Medical, Cook, and Pfizer. There are 120 companies with R&D investment plans in Ireland for the 2003-2005 period, and of these, 70 percent are U.S. firms, including, notably, IBM, HP, and Bell Labs. The U.S. Department of Commerce estimates that U.S. companies' average return on investment (ROI) in Ireland is 24 percent.

Table 7.1: Stock of U.S. Investment in Ireland
(Millions of dollars; historical cost basis)

	2001	2002	2003
All Industries	39,541	46,617	55,463
Manufacturing	10,635	13,427	15,002
Food	146	157	193
Chemicals	4,632	6,207	6,089
Metal	118	22	33
Industrial machinery	18	23	24
Computers/Electronic	1,944	3,241	3,992
Transportation Equipment	176	unavailable	unavailable
Wholesale trade	2,483	2,680	2,998
Information	8,765	10,362	14,048

Finance/Insurance	5,240	7,520	8,681
Depositary Institutions	155	145	445
Prof. Services	1,259	1,459	1,655

Source: U.S. Department of Commerce, Survey of Current Business

Table 7.2: Investment Flows into Ireland by Country Origin, 2002
(in euro millions)

Total	25,895
UK	2,520
Belgium/Luxembourg	3,194
France	-758
Germany	3,388
Italy	-380
Netherlands	10,734
Canada	222
United States	7,859
Japan	-3,335

Source: Ireland Central Statistical Office (CSO) website

(Note: 2002 is the last year for which Ireland has country-origin investment flow and stock statistics. Ireland does not have investment data by sector destination. Also, investment by U.S. companies in Ireland is often effected through intermediary subsidiaries located outside the United States. According to the CSO, a sizeable proportion of the Dutch investment cited above originated in the United States.)

Table 7.3: Investment Stock in Ireland by Country Origin, 2002
(in euro millions)

Total	176,124
UK	16,810
Belgium/Luxembourg	12,099
France	-487
Germany	10,317
Italy	3,945
Netherlands	59,940
Canada	6,587
United States	37,422

Source: Ireland Central Statistical Office (CSO) website

Table 7.4: Total Employment by Sector in IDA-Supported Companies

	2001	2002	2003
Information/Communications Technologies	46,513	43,660	41,459
Pharmaceuticals/Healthcare	18,587	18,996	19,463
Engineering	17,699	16,662	15,435
Miscellaneous Industry	10,633	9,964	9,242
International and Financial Services	42,845	42,762	43,394
Total	136,277	132,004	128,993

Source: IDA Ireland Annual Report, 2003

Table 7.5: Origins of IDA-Supported Companies, End-2003

Country	Number of Firms	Employment
United States	490	89,158
United Kingdom	118	8,086
Germany	149	11,394
Rest of Europe	214	15,602
Asia/Pacific	44	2,937
Rest of World	40	1,816
Total	1,055	128,993

Source: IDA Ireland Annual Report, 2003

Table 7.6: Major U.S. Investments in Ireland

Company	Location
Apple Computers	Cork
AIG Europe	Dublin
Bausch & Lomb	Waterford
Berlitz	Dublin
Boston Scientific	Galway, Cork, Wexford
HP-Compaq Computers	Galway, Dublin
Citibank	Dublin
Dell Computers	Limerick, Dublin
Eastman Kodak	Limerick, Cork
Fidelity	Dublin
Gartner Group	Limerick

Hertz	Dublin
IBM Ireland	Dublin
Intel Ireland	Dublin, Leixlip
Johnson & Johnson	Dublin
Millipore Ireland BV	Cork
Motorola	Cork
Netscape Communications	Dublin
Novartis	Cork
Prudential Insurance of America	Letterkenny
3Com	Dublin
United Airlines	Dublin
US Robotics	Dublin
Woodchester Investments	Dublin
Wyeth Biopharma	Dublin

Source: IDA Ireland Annual Report, 2003

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